

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 EB-08 TRSE-00 SS-15 SP-02 COME-00
OMB-01 XMB-02 AID-05 OPIC-03 SSO-00 HA-05 NSCE-00
/056 W
-----041598 251507Z /14

O 251417Z FEB 78
FM AMEMBASSY MONTEVIDEO
TO SECSTATE WASHDC IMMEDIATE 5910

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E.O. 11652: GDS
TAGS: EFIN, SHUM, UY
SUBJECT: IFI LOANS TO URUGUAY - COMMENTS FOR FEBRUARY 27
MEETING

REF: (A) STATE 047601 (B) STATE 045685 (C) MONTEVIDEO 0428

1. BACKGROUND TO CURRENT OPTIONS FOR COMMUNICATING U.S. STANCE ON PROSPECTIVE IBRD/IDB FINANCING OF SALTO GRANDE ELECTRICAL DISTRIBUTION SYSTEM CONSISTS OF THE FOLLOWING IMPORTANT ELEMENTS:

A. AMBASSADOR MADE SEPT, 1977 VERBAL DEMARCHE TO SEPLACODI (PLANNING OFFICE) DIRECTOR BRIGADIER JOSE CARDOZO, INFORMING HIM OF U.S. INTENTION TO VOTE AGAINST THEN UPCOMING IDB PROJECTS FOR PASO SEVERINO WATER SYSTEM AND TECHNICAL ASSISTANCE FOR THE BANK OF THE REPUBLIC (BOR).
B. BOR PROJECT WAS THEN NOT SUBMITTED BECAUSE GOU RECOGNIZED USG HAS FSO VETO, BUT PASO SEVERINO WAS RESUBMITTED QUICKLY WITH ALL OC FUNDING AND PASSED OVER U.S. NEGATIVE VOTE IN DECEMBER, 1977. A COASTAL HIGHWAY LOAN WAS ALSO SUBJECT OF U.S. NEGATIVE VOTE IN DECEMBER, BUT WAS APPROVED BY THE IDB BOARD.

C. EXIM DENIED GENERAL ELECTRIC BID FOR GUARANTEES FINANCING FOR \$10 MILLION IN ELECTRICAL EQUIPMENT RELATED TO THE SAME SALTO GRANDE PROJECT, ALSO IN CONFIDENTIAL

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DECEMBER, 1977. (EMBASSY KNOWS TO DATE OF NO OTHER EXIM DENIALS.)

D. EMBOFF EXCHANGES WITH ALL LEVELS OF GOU HAVE EMPHASIZED THAT U.S. WILL WELCOME AND RESPOND TO ACTS SIGNIFICANTLY IMPROVING HR PERFORMANCE OF THE GOU, BUT THAT NO SIGNIFICANT PROGRESS HAS BEEN OBSERVED TO DATE.
E. CHANGE OF MILITARY LEADERSHIP IN FEBRUARY, UNDER

NORMAL ROTATION OF ARMY AND AIR FORCE CINCS, MAY LEAD TO SOME IMPORVEMENTS IN HUMAN RIGHTS SITUATION HERE. EMBASSY, THEREFORE, BELIEVES IT IMPORTANT FOR THE MOMENT TO AVOID ACTIONS ALMOST CERTAIN TO BRING NEGATIVE GOU REACTIONS UNLESS WE ARE COMPELLED TO TAKE THEM.

2. GIVEN THIS BACKGROUND WE BELIEVE OPTIONS A AND B IN PARA 2 REFTEL ARE NOT REALLY VIABLE. THEY ARE NOT LIKELY TO PRODUCE THE DESIRED RESULT OF GETTING THE GOU VOLUNTARILY TO WITHDRAW THESE LOANS. THEY MOST LIKELY WILL FORTIFY THE GOU'S RESOLVE AS IN THE PASO SEVERINO CASE, TO PROCEED, CONFIDENT THAT THE USG DOES NOT HAVE THE VOTES TO STOP THEM. INSTEAD WE BELIEVE THE LONGER TERM EFFECTIVENESS OF OUR LEVERAGE LIES IN THE APPROACH EMBODIED IN PRESIDENTIAL DIRECTIVE NO. 30: HUMAN RIGHTS, PARA. 7 (REFTEL B); QUOTE TO THIS END, FUTURE U.S. ACTIONS IN THE INTERNATIONAL FINANCIAL INSTITUTIONS SHALL SEEK TO: UTILIZE MOST EFFECTIVELY BOTH OUR VOICE AND OUR VOTE; UNDERSTAND AND ATTEMPT TO INFLUENCE THE BANKS' ACTIONS AS EARLY AS POSSIBLE IN THE LOAN PROCESS; AND, ENGAGE THE SUPPORT OF OTHER NATIONS AND MULTILATERAL ORGANIZATIONS. UNQUOTE. FOR THE TIME BEING, OUR BEST HOPE LIES NOT IN INFORMING THE GOU OF OUR INTENTION TO EXERCISE A NEGATIVE VOTE SOME MONTHS FROM NOW, BUT IN USING OUR DIPLOMATIC INFLUENCE (VOICE) WITHIN THE BANKS TO DELAY ACTION ON THE LOANS (WHICH AS REFTEL C INDICATES ARE NOT MOVING RAPIDLY IN ANY EVENT) TO GIVE THE NEW GOU LEADERSHIP THE TIME TO IMPROVE HUMAN RIGHTS PERFORMANCE. IF CONFIDENTIAL

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THEY DO SO, THEIR POSITIVE ACTIONS WOULD PERMIT US, AS DIRECTED IN P.D. 30, TO APPROPRIATELY ACKNOWLEDGE IMPROVEMENTS.

3. AS FOR "BASIC HUMAN NEEDS" ASPECT, PRIMARY EFFECTS OF INCREASED HYDRO-GENERATED ELECTRICAL SUPPLY ARE LIKELY TO BE DECREASED PETROLEUM IMPORTS AND ATTENDANT FOREIGN EXCHANGE SAVINGS, POSSIBLY LOWERED CONSUMER COST (RELATIVE TO CONTINUED USE OF ALTERNATE PETROLEUM BASED POWER GENERATION), AND MORE FAVORABLE POWER COSTS FOR NEW INDUSTRY, INVITING NEW INVESTMENT IN URUGUAY. ALTHOUGH EMPLOYMENT GENERATING POTENTIAL AND POSSIBLE CONSUMER SAVINGS WOULD BE IMPORTANT TO THE WORKING PERSON IN THIS ECONOMY OF RISING UNEMPLOYMENT AND FALLING REAL WAGES, THIS DOES NOT APPEAR TO SATISFY "BASIC HUMAN NEEDS" CRITERIA AS WE UNDERSTAND THEM.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: VOTING, DEVELOPMENT LOANS, DEVELOPMENT BANKS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978MONTEV00639
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780088-0229
Format: TEL
From: MONTEVIDEO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780213/aaaaakgo.tel
Line Count: 109
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 81a1b5cf-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 STATE 47601, 78 STATE 45685, 78 MONTEVIDEO 428
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3476578
Secure: OPEN
Status: NATIVE
Subject: IFI LOANS TO URUGUAY - COMMENTS FOR FEBRUARY 27 MEETING
TAGS: EFIN, SHUM, UY, US, IBRD, IDB
To: STATE
Type: TE
vdkgvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/81a1b5cf-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014